WATEROUS EQUIPMENT LIMITED

1966 ANNUAL REPORT

DETROIT DIESEL

DETROIT DIESEL

WATEROUS EQUIPMENT LIMITED

HEAD OFFICE: 10025 - 51st AVENUE, EDMONTON, ALBERTA
BRANCHES: CALGARY and GRANDE PRAIRIE

BOARD OF DIRECTORS

G. J. BRYAN, Q.C.
S. G. COWAN
L. DE LA GIRODAY
V. HARDY
I. ROBERTSON
A. WHEELER

OFFICERS

President and Chairman of the Board ..... L. DE LA GIRODAY
Vice-President Operations ..... S. G. COWAN
Vice-President Finance ..... V. HARDY
Secretary ..... G. J. BRYAN, Q.C.

GENERAL COUNSEL

BRYAN, FOOTE, ANDREKSON, WILSON, OSTRY, BRYAN & BOYER
Barristers and Solicitors
900 Chancery Hall
No. 3 Sir Winston Churchill Square
Edmonton, Alberta

AUDITORS

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants
1002 Empire Building
Edmonton, Alberta

TRANSFER AGENT AND REGISTRAR

NATIONAL TRUST COMPANY, LIMITED
Edmonton and Toronto, Canada

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

Your Board of Directors submits herewith the balance sheet and financial statements for the year ended December 31st, 1966 with the following comments:

Following the Annual Meeting held on March 31st, 1966 your new Board made a complete survey of the financial position of the Company and found the following problems and applied the hereinafter stated solutions:

1. The used equipment inventory was too high and carried in the books of the Company at unrealistic values as proven by subsequent sales.
2. The installment contracts and accounts receivable were high.
3. The reserves for doubtful accounts were inadequate.
4. The bank loans were heavy with the result that relations with the Bank were strained and the Company was vulnerable in a tight money situation.
5. Certain construction equipment franchises have proven unprofitable for the last ten years.
6. The profits from the operation of the Lethbridge branch were marginal.
7. Certain dividends were paid in the past which were not warranted.
8. Extremely onerous commitments were entered into before the change of management.

Your Board took the following steps to correct each situation as follows:

1. (a) We revalued the used equipment at realizable values.
   (b) We filed a loss return for 1965 with the Department of National Revenue thus eliminating most of the income tax liability previously shown.
   (c) We reduced the inventories from $3,493,855 to $1,346,529.
2. We sold approximately $1,000,000 of installment contracts thereby easing the receivables situation.
3. We increased the reserves for doubtful accounts to a more adequate level.
4. We changed bankers and reduced the bank loan from $1,343,299. to $402,627.
5. We examined the profitability of our various franchises and as a result the unprofitable construction equipment franchises were terminated.
6. The Lethbridge branch was closed and the area is now served by a resident service man.
7. No dividends were paid during 1966 and it is not anticipated that any dividends can be paid in 1967. There are certain restrictions on payment of dividends (see note appended to balance sheet).
8. Some onerous commitments were wound up at a loss to the Company, but the used equipment resulting therefrom still remains to be sold.

A further result of the steps taken was that:

a. Our accounts and notes payable were reduced from $1,790,000 to less than $160,000.00

b. Debentures in the amount of $250,000 were redeemed during 1966 thus satisfying sinking fund commitments for the year 1966 to 1970 inclusive.

c. A marketable securities portfolio of $250,000 was purchased with funds not immediately needed for operations (see note appended to balance sheet).

The inventory reduction, the winding up of onerous commitments and the termination of unprofitable franchises resulted in the Company utilizing the $230,000. Contingencies reserve and a further loss of $228,232. which reduced the book value of the shares to $9.01 as compared with $9.20 shown the year before.

Our current assets are now five times our current liabilities as compared with 1.8 times the year before and our present working capital of $2,279.511 provides more than three times coverage to Debentures outstanding. All this reflects the much healthier state of the finances of the Company and proves the correctness of the steps taken to remedy the situation.

With our finances now in order, cordial relations having been established with our new bankers and many of our problems solved we can expect to achieve profitable operation in the near future.

Your Company now operates a General Motors Diesel Engine House and it is our determined aim to make this operation one of the most efficient. The outlook for this operation in the Province of Alberta is bright indeed.

Your Board received with regret the resignation of S. G. Cowan, General Manager since 1962. The Board wishes to express its appreciation to Mr. Cowan for his services during his term of office. His resignation is to become effective on March 30th, 1967.

Mr. Ian Robertson has been appointed General Manager to take charge on March 30th, 1967.

The Board expresses its thanks and appreciation to our employees without whose faithful and loyal cooperation we could not have achieved the improvements summed up in this report.

Edmonton, Alberta
March 1st, 1967

L. DE LA GIRODAY
Chairman of the Board and President

ATEROU

CONSOLIDATED

Decembe

(with comparative fig

ASSETS

	1966	1965
CURRENT ASSETS:		
Cash	$ 276	$ 8,244
Marketable securities, at cost (quoted market value $242,613) (notes 2 and 3)	250,785	—
Accounts receivable (less allowance for doubtful accounts $64,698; 1965—$39,237) (note 2)	1,227,879	1,206,435
Installment contracts receivable (note 4)	—	1,109,250
Agreements for sale, current portion	12,892	32,714
Inventories, at lower of cost or net realizable value (note 8)	1,346,529	3,493,855
Prepaid expenses	12,558	35,936
Total current assets	2,850,919	5,886,434
AGREEMENTS FOR SALE	91,014	123,728
Less amount due within one year	12,892	32,714
	78,122	91,014
Cash surrender value of life insurance	2,100	—
PROPERTY, PLANT AND EQUIPMENT, at cost less depreciation:		
Buildings	65,110	65,110
Machinery and equipment	253,334	241,072
Furniture and fixtures	122,217	121,754
Automotive equipment	87,307	69,982
Leasehold improvements	63,953	59,979
	591,921	557,897
Less accumulated depreciation	459,194	429,592
	132,727	128,305
Land	33,350	33,350
Net fixed assets	166,077	161,655
Other Assets	—	7,944
Debenture discount, less amount written off	—	30,000
	$3,097,218	$6,177,047

See accompanying notes to consolidated financial statements.

(Referred to in the accompanying report of Peat, Marwick,

QUIPMENT LIMITED

D SUBSIDIARIES

ALANCE SHEET

., 1966

for 1965) (note 1)

LIABILITIES

	1966	1965
CURRENT LIABILITIES:		
Due to bank, secured (note 2):		
Overdraft on current account	$ 134,627	$ 202,299
Demand loan	268,000	1,141,000
	402,627	1,343,299
Accounts payable and accrued charges	156,820	462,896
Notes payable to suppliers, secured	11,961	1,322,583
Income taxes	—	6,283
Sinking fund payment due within one year	—	50,000
Total current liabilities	571,408	3,185,061
6½% SINKING FUND DEBENTURES, Series "A", due July 15, 1985:		
Authorized $1,000,000, issued $1,000,000, less $250,000 redeemed in 1966	750,000	1,000,000
Less sinking fund payment due within one year (note 5)	—	50,000
	750,000	950,000
CONTINGENCIES RESERVE	—	230,000
SHAREHOLDERS' EQUITY:		
Capital stock:		
Authorized 206,250 shares without nominal or par value; issued 196,930 shares	796,389	796,389
Earned surplus (note 6)	979,421	1,015,597
Total shareholders' equity	1,775,810	1,811,986
CONTINGENT LIABILITIES and commitments (note 7)		
	$3,097,218	$6,177,047

Approved on behalf of the Board:

S. G. COWAN Director

V. HARDY Director

ll & Co., Chartered Accountants, dated February 28, 1967)

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1966

(With Comparative Figures for 1965) (Note 1)

	1966	1965
INCOME FROM SALES AND SERVICE	$ 540,863	939,826
FINANCING	71,120	125,873
	611,983	1,065,699
EXPENSES:		
Selling	437,585	449,174
Administrative	292,145	333,176
Financial	143,291	169,107
Depreciation	41,969	39,285
Directors' fees	5,400	4,763
Debenture issue expense written-off	—	12,781
	920,390	1,008,286
Net (loss) earnings from operations	(308,407)	57,413
OTHER INCOME	38,044	40,166
Net (loss) earnings before income taxes	(270,363)	97,579
Provision for income taxes (recovery)	(42,131)	38,575
Net (loss) earnings	$(228,232)	59,004

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1966

BALANCE AT DECEMBER 31, 1965			$1,049,166
DEDUCT:			
Adjustment of prior year's earnings (note 1)		$ 86,800	
Less adjustment to reflect 100% ownership of subsidiary company		53,231	33,569
ADD:			1,015,597
Write-off of contingencies reserves		230,000	
Less:			
Write-off of debenture discount	$ 30,000		
Write-off of other assets	7,944	37,944	192,056
			1,207,653
Net loss for the year			228,232
Balance at December 31, 1966			$ 979,421

CONSOLIDATED STATEMENT SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1966

FUNDS APPLIED:		
To meet cash deficit from operations:		
Net loss		$ 228,232
Less depreciation		41,969
		186,263
Increase in cash surrender value of life insurance		2,100
Gain on sale of fixed assets		2,629
		190,992
Purchase of sinking fund debentures	$ 250,000	
Less amount shown as current liability in 1965	50,000	200,000
Purchase of fixed assets		51,600
Total funds applied		442,592
FUNDS PROVIDED FROM:		
Proceeds from sale of fixed assets	7,838	
Decrease in agreement for sale receivable beyond one year	12,892	20,730
DECREASE IN WORKING CAPITAL		$ 421,862

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1966

1. Subsequent to the finalization of the financial statements for the year ended December 31, 1965, the directors authorized additional write-downs of inventory, additional allowances for doubtful accounts and the setting up of a liability for holiday pay. These adjustments were taken into consideration when filing the company's income tax return and consequently adjusted both the income tax liability and the provision for income taxes for 1965. The 1965 figures which are supplied for comparative purposes only reflect these changes which are summarized below:

Inventory write-downs	$ 120,791
Additional allowance for doubtful accounts	21,380
Liability for holiday pay	20,054
	162,225
Reduction of provision for income taxes	75,425
Total adjustments	$ 86,800

During the year the parent company acquired the remaining outstanding shares of a subsidiary company. The 1965 comparative figures have been changed to reflect 100% ownership during 1965.

Certain other minor changes have been made to the 1965 figures to make them comparative with 1966.

2. The amounts due to the bank are secured by the marketable securities and the accounts receivable.

3. The marketable securities consist of the following:
   - 2,500 common shares Cominco Ltd.
   - 3,000 common shares Trans Mountain Oil Pipe Line Co. Ltd.
   - 5,000 common shares Canadian Breweries Ltd.
   - 3,000 common shares Abitibi Paper Co. Ltd.
   - 1,000 common shares Industrial Acceptance Corporation Ltd.
   - 400 common shares D. A. Stuart Oil Co. Ltd.
   - 500 6¼% cumulative redeemable Series A $20 par value shares Inter-City Gas Ltd.
   - 250 share purchase warrants Inter-City Gas Ltd.

4. During the year a subsidiary company (included in the consolidated financial statements) ceased to carry on business as a finance company and sold its installment contracts receivable.

5. The 6½% sinking fund debentures, Series "A" are secured by a first floating charge on the undertaking of the company and all of its property and assets. The company has agreed to pay to the trustee, amounts sufficient to retire $50,000 aggregate principal amount of debentures on July 15 of each of the years 1966 to 1984 inclusive. During 1966 the company has delivered to the trustee $250,000 principal amount of debentures so that no further sinking fund payments will be required until July 15, 1971.

6. The trust deed securing the 6½% sinking fund debentures Series "A" places certain restrictions on the payment of dividends. At December 31, 1966, none of the earned surplus is available for the payment of dividends.

7. The company is contingently liable at December 31, 1966, in respect of an indirect liability on equipment sales and contracts sold with recourse in the amount of $967,612.

   The company has lease commitments in regard to rental premises in an amount of $86,200 annually. These leases expire in December, 1982.

8. In December of 1966, the company terminated certain of its construction equipment franchises. The termination of these franchises has resulted in a substantial reduction of inventory at December 31, 1966, as compared to 1965 and will result in a substantial reduction in the volume of business during 1967.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Waterous Equipment Limited and subsidiaries as of December 31, 1966 and the consolidated statements of earnings and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of earnings and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company and its subsidiaries at December 31, 1966, and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds presents fairly the information shown therein.

Edmonton, Alberta,
February 28, 1967.

Peat, Marwick, Mitchell & Co.
Chartered Accountants.

La Survivance Printing Ltd., Edmonton